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VENEZUELA: Venezuelan officials will adamantly oppose any attempt at the OPEC meeting in Vienna on Sunday to reduce crude oil prices. The new minister of mines and hydrocarbons, Valentin Hernandez, said on March 13 that the Perez government is firm in its position that oil prices should not be lowered, and he urged that OPEC not take a "backward" step in this area.

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Venezuela's insistence on maintaining the present prices for its oil is undoubtedly related to the increasingly important role that oil revenues will play in the plans of the new Democratic Action government for domestic economic development. The new minister of finance, Hector Hurtado, who has served as an oil adviser to the party, said that a special reserve fund equaling about half of Venezuela's oil revenues will be set up to pay for government programs of the highest priority. These would include programs in the steel industry, petrochemicals, oil tankers, merchant marine, and agriculture. Hurtado estimates that this year alone, the administration will have at its disposal at least \$4 to \$5 billion to deposit in its special fund. He also said that the government intends to use additional oil revenues to establish a special fund for use by less developed countries. Presumably this money would be used to assist those economies hurt by the sharp rise in oil prices.

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*PORTUGAL: The appointment of General Luz Cunha as armed forces chief of staff makes it doubtful that the government will relax control over its African territories soon.

Luz Cunha is an ultraconservative who has long favored a strong military presence in Portugal's overseas territories to conduct the war against insurgency. Luz Cunha is well-connected at the general staff level, [REDACTED]

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[REDACTED] have expressed a low regard for his professional capabilities.

The dismissals of Generals Costa Gomes and Spínola, who favored greater autonomy for the overseas territories, apparently have been accepted by a majority of the military. Pockets of discontent undoubtedly remain, however, and the one-day military alert that was lifted yesterday may be reimposed if dissent resurfaces.

There have been no indications that Costa Gomes or Spínola have been stripped of their rank or have been further disciplined. The government probably will handle their cases gingerly in light of Spínola's widespread support in the military.

In view of the government's censorship policies, Prime Minister Caetano must have given tacit consent to the publication last month of Spínola's book recommending a federation between Portugal and its overseas territories and autonomy for the latter. He recently admitted, in fact, that in 1962 he privately proposed a similar concept to former prime minister Salazar. Caetano now appears to be backing away from any association with such proposals in order to preserve peace and his own authority.

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[REDACTED]

*Because of the shortage of time for preparation of this item, the analytic interpretation presented here has been produced by the Central Intelligence Agency without the participation of the Bureau of Intelligence and Research, Department of State.

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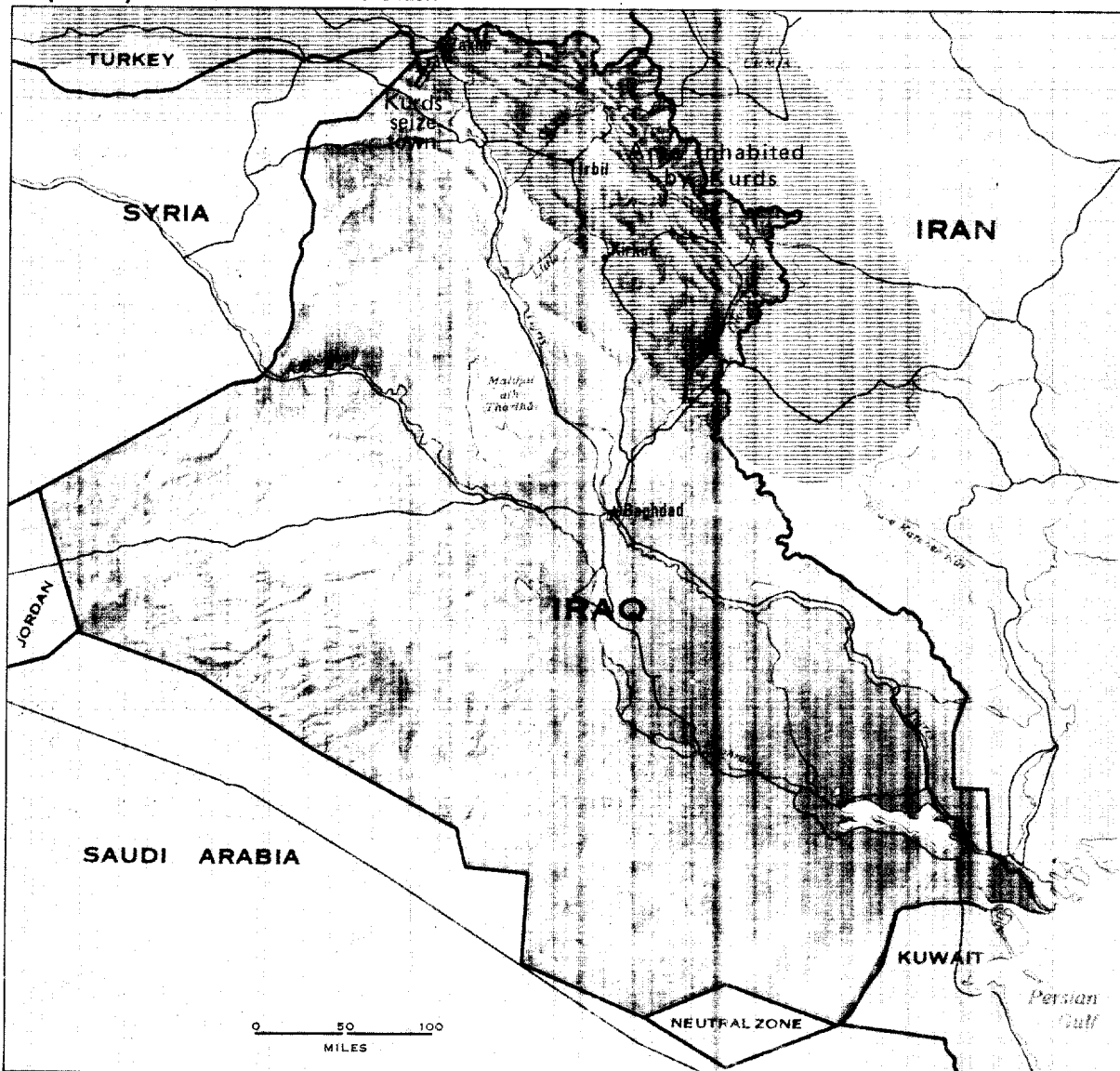
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Iraqi Army and Kurdish Rebels Clash



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IRAQ: Heavy fighting is reported to have broken out between Iraqi troops and the Kurdish rebels near the Turkish border, but there are signs that political talks between the two sides may soon take place.

According to Turkish news correspondents in the area, the Kurds, in a surprise attack on March 13, closed the 200-mile border by seizing the strategic town of Zakho, the site of the only road crossing the mountainous border. The Kurds are also reported to have seized several army garrisons along the border. Farther south, Iraq continues to move units, including armor and a helicopter squadron, into the Kirkuk oil region, where a Kurdish "brigade" commander claims the army has opened artillery fire on several Kurdish villages.

The attacks by the Kurds were probably designed to consolidate the Kurds' position in the far north. Despite the fighting, the absence of calls by either side for a cease-fire, and the initial Kurdish rejection on March 12 of the government's autonomy law, there are indications that negotiations may soon develop.

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In announcing the autonomy law, the government gave the Barzani-led Kurdish Democratic Party 15 days to accept the plan and join the National Front government in Baghdad or presumably lose its preferential status as the only party representing the Kurds. The government also warned that any act against the security of the country would invalidate the government's plan for granting autonomy to the Kurdish minority. Baghdad would have little to gain from taking such action. It probably hoped the threat would deter the Kurds from launching attacks against government installations, especially the Kirkuk oil fields.

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*ITALY: Italian Prime Minister Rumor's new center-left government will probably survive a vote of confidence in parliament next week, but the odds are against it enduring beyond the national referendum on legalized divorce, scheduled for May 12.

The coalition consists of the dominant Christian Democrats, the Socialists, and the Social Democrats. The Republican Party, whose withdrawal on March 1 caused the government to fall, has agreed to support the coalition in parliament. The new government has pledged, as did its predecessor, to give top priority to the fight against inflation and other problems worsened by the energy crisis. The Republican Party's refusal to accept cabinet posts, however, is one sign that the dispute over how to achieve these goals remains unresolved.

The campaign leading up to the divorce referendum will have first call on political energies in the next several weeks. It will not be confined to the divorce issue, however. Lay forces, including all of the political parties except the Christian Democrats and the Neo-Fascists, will portray the issue as a challenge by the Church to individual civil rights. The Communists and Socialists, on the other hand, will try to use the anti-divorce position of the Neo-Fascists to make the referendum an anti-fascist crusade.

Many politicians view the referendum as a personal battle between the leaders of the country's two largest parties--Christian Democratic Amintore Fanfani and Communist Enrico Berlinguer. In January, Fanfani successfully blocked a Berlinguer-led effort to avoid holding the referendum. The referendum battle, therefore, will place the two parties at loggerheads at a time when Berlinguer has been stressing Communist readiness for a modus vivendi with the Christian Democrats. The Communists will find it hard to maintain the moderate approach that gave Rumor's last coalition an extended breathing spell. Although the Communists do not yet want to scrap their drive for compromise with the Christian Democrats, the Communist stance has already begun to stiffen. [REDACTED]

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[REDACTED]

INTERNATIONAL MONETARY DEVELOPMENTS: The OECD Committee on Financial Markets and the EC Monetary Committee have concluded that existing markets for private capital can safely handle the expected influx of member borrowing to finance this year's oil-induced balance-of-payments deficits. Neither group feels that formal coordination of member borrowing will be necessary this year.

Some countries had been concerned that the recent large French and Italian borrowings would presage a disruptive rush for funds in the international capital markets. The committees believe that the recent relaxation of capital controls in many countries will provide sufficient mobility of funds to assure an adequate supply even if several countries attempt to float loans within a short period of time. [REDACTED]

[REDACTED]

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*VENEZUELA: In highly publicized activities this week, intended to coincide with the inauguration of President Carlos Andres Perez, extremists in Caracas and other cities in Venezuela have attempted to draw attention to their generally moribund organizations. The actions included incendiary attacks against several foreign-owned businesses, the dynamiting of oil pipe lines, and attempts to interrupt Caracas' power supply.

Tanks were used on Friday to occupy a sector of Caracas that has long been a haven for leftist extremists. Until then, the government's reaction had been low key.

Interior Minister Luis Pineura Ordaz is urging the media, particularly the sensationalist tabloid press, not to give the extremists the publicity they are seeking. Perez had previously indicated that while he intends to continue the Caldera government's pacification program, he will not hesitate to crush the extremists if they step out of line. That time may be approaching. According to press reports today, Perez held an urgent unscheduled meeting with security officials, presumably to discuss what further measures should be implemented. [REDACTED]

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[REDACTED]

BRAZIL: Inflation is quickly becoming the major economic issue facing the new Geisel administration. After a decade of falling rates of inflation, Brazil is experiencing a resurgence of rapidly rising prices.

The cost-of-living index rose 4.3 percent in the first two months of this year, compared with 2.5 percent during the same period in 1973. Last year, the Medici regime made a determined effort to keep prices from rising more than the government-set goal of 12 percent, and prices were severely restrained. As a result, there were serious shortages and black markets began to spring up. Despite the government's efforts, prices increased about 14 percent in Rio de Janeiro, where the official price index is measured, and even faster in other parts of the country.

Although control measures are largely still in effect, the government has begun to permit prices of many commodities to rise to market levels. Coupled with rising oil costs and large increases in the money supply, this could mean that the government may fail to hold price increases to the 20-percent limit it has set for this year. [REDACTED]

[REDACTED]

BRAZIL: The new Geisel government may already be signaling its annoyance with at least one aspect of its relationship with the US. A leading newspaper--which has become the unofficial spokesman for the administration--has editorially attacked the US for opening investigation on the imposition of countervailing duties on imported Brazilian shoes. The issue centers on objections by US manufacturers to Brazil's long-standing practice of subsidizing the manufacture of shoes and other products that have made great inroads into the US market. For some time, the US has sought to engage the Brazilians in technical discussions to resolve the dispute, but Brasilia has consistently declined. The newspaper calls the US plan "anachronistic" and a direct violation of promises to give preferential treatment to developing nations. [REDACTED]

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LAOS: Prime Minister Souvanna is seeking reaffirmation of the King's support for his plan to form a new coalition government.

Souvanna traveled to Luang Prabang yesterday amid reports that the King was having second thoughts about investing the coalition without some form of prior approval by the National Assembly. Souvanna has been considerably irritated by these reports and by indications that the King also wants to countermand his orders for the withdrawal of government units from positions overlooking Pathet Lao bivouac areas on the outskirts of the royal capital. The Pathet Lao insist that these positions must be vacated if further progress toward a coalition is to be realized.

Before leaving Vientiane, Souvanna indicated that if the King insists on having his way, he will submit his resignation. The Prime Minister has used this resignation tactic at several critical points during the protracted negotiations to obtain his political objectives.

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[REDACTED]

JAPAN: A \$650-million trade deficit was registered in February as higher oil prices helped double Japan's import bill in comparison with the same month last year. A nearly three-fold increase in petroleum costs added \$1 billion to the bill. Non-oil imports, however, also rose by \$1 billion, or 75 percent. This was much more than anticipated, and it increases the likelihood of an annual trade deficit of several hundred million dollars. Exports--led by steel and autos--showed a 25-percent gain over last February.

In trade with the US, Japan ran an estimated \$20-million deficit, compared with a \$160-million surplus last February. Exports to the US rose 23 percent--the biggest increase since September 1972--but imports from the US maintained their rapid growth, rising 63 percent. Price increases accounted for almost all of the export growth and a large share of the increase in imports.

Japan's balance of payments in February was in deficit by \$1.2 billion--the twelfth consecutive monthly deficit. The capital accounts represented the only bright spot in the balance-of-payments picture. Apparently in response to Tokyo's relaxation of controls on capital inflows and discouragement of outflows, long-term outflows dropped 60 percent from the December peak to \$490 million, and short-term inflows reached \$470 million. Continued large payments deficits are likely in the coming months. [REDACTED]

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India: The Indians launched their fourth Leander-class frigate on March 9. Built under British license, the ship is now fitting out at Bombay. The first Indian-built ship of this type was commissioned in June 1972, after six years of work. The second unit probably will be commissioned this year, but the fitting out of the third unit will not be completed until 1976. New Delhi hopes to have six Leander-class frigates operational by the end of the decade. [REDACTED]

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France: France's trade deficit in February rose to \$300 million, primarily as a result of the tripling of the price of imported oil since last October. This was three times the level in January. France hopes for an improvement in its non-oil trade picture to offset partly the increased oil bill; such an improvement would require a reversal of recent trends. Exports in February were up about 36 percent over a year earlier, but non-oil imports have risen about 40 percent. Paris now expects a \$3- to 4-billion deficit in 1974 rather than the \$1.5-billion trade surplus anticipated earlier. [REDACTED]

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